


RURAL WATER DISTRICT NO. 3

Osage County, Oklahoma

Annual Financial Statements & Independent Auditor's Report

December 31, 2022



**Audited by
Michael Green, CPA
827 W Locust
Stilwell, Ok 74960**

RURAL WATER DISTRICT NO. 3
OSAGE COUNTY, OKLAHOMA
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2022

INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS:	
Statement of Financial Position - Modified Cash Basis	3
Statement of Activities- Modified Cash Basis	4
Statement of Cash Flows - Modified Cash Basis	5
Notes to the Financial Statements	6
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	9
Schedule of Findings and Responses	11

MICHAEL W. GREEN

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rural Water District No. 3, Osage County

Opinion

I have audited the accompanying modified cash basis financial statements of Rural Water District No. 3, Osage County (a nonprofit organization) (the District), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with modified cash basis of accounting.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the District and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter—Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with modified cash basis of accounting, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing

standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated June 13, 2023 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Regards,



Michael W. Green, CPA
June 13, 2023

RURAL WATER DISTRICT NO. 3
OSAGE COUNTY, OKLAHOMA
STATEMENT OF FINANCIAL POSITION- MODIFIED CASH BASIS
December 31, 2022

Assets

Current assets

Cash and cash equivalents	\$ 352,142
Certificates of deposit	547,632
Total current assets	<u>899,774</u>

Noncurrent assets

Intangible assets - Water Rights (Note 3)	33,607
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Fixed assets:

Work in progress	19,092
Property, plant and equipment (Note 4)	2,428,457
Less accumulated depreciation	<u>(1,352,754)</u>
Total fixed assets	<u>1,094,795</u>

Total assets	<u><u>\$ 2,028,176</u></u>
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Liabilities

Current liabilities

Notes payables current portion	<u>\$ -</u>
Total current liabilities	<u>-</u>

Noncurrent liabilities

Notes payables	-
Less current portion	<u>-</u>
Total noncurrent liabilities	<u>-</u>

Total liabilities	<u>-</u>
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Net position

Invested in capital assets	1,094,795
Unrestricted	<u>933,381</u>
Total net position	<u><u>\$ 2,028,176</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 3
OSAGE COUNTY, OKLAHOMA
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2022**

Changes in Unrestricted Net Assets:

Revenues:

Water Sales	\$ 553,966
Transfer fee	4,275
Membership fee	<u>13,648</u>
Total operating revenue	<u>571,889</u>

Operating expenses:

Payroll	40,164
Payroll taxes	4,780
Contract labor	120,000
Water purchases	218,909
Water samples, lab & DEQ	5,673
Insurance and bonds	10,594
Repairs and maintenance	16,831
Utilities	10,148
Office utilities	7,805
Professional fees	3,070
Office expense	16,762
Licenses and dues	658
Other expense	1,331
Depreciation	<u>75,984</u>
Total operating expenses	<u>532,709</u>

Net operating income	<u>39,180</u>
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Nonoperating revenue (expense)

Interest income	<u>3,410</u>
Total nonoperating revenue (expense)	<u>3,410</u>

Change in net position	42,590
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Net position, Beginning of year	<u>1,985,586</u>
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Net position, end of year	<u><u>\$ 2,028,176</u></u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

**RURAL WATER DISTRICT NO. 3
OSAGE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2022**

Cash flows from operating activities

Receipts from customers	\$ 571,889
Payments to suppliers	(416,561)
Payments to employees	(40,164)
Net cash provided (used) by operating activities	<u>115,164</u>

Cash flows from capital and related financing activities

Purchase of fixed assets	<u>(6,041)</u>
Net cash provided (used) by capital and related financing activities	(6,041)

Cash flows from investing activities

Additions to certificate of deposits	(302,632)
Interest income	<u>3,410</u>
Net cash provided (used) by investing activities	(299,222)

Net increase (decrease) in cash and cash equivalents (190,099)

Cash balance beginning of year 542,241

Cash balance end of year \$ 352,142

Reconciliation of operating income (loss) to net cash provided (used) by operating activities

Operating income (loss)	\$ 39,180
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation and amortization expense	75,984
Change in assets and liabilities:	
Changes in modified cash basis	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 115,164</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

RURAL WATER DISTRICT NO. 3
OSAGE COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 3, Osage County, a non-profit corporation, was incorporated pursuant to the Oklahoma Non-Profit Corporation Act of 1968, Title 18 of the laws of the state of Oklahoma. The District is exempt from federal and state income taxes under Section 501(c)(12) of the United States Internal Revenue Code. The purpose of the District is to provide for the use and benefit of its members, a waterworks and distribution system and sewage disposal system.

Basis of Accounting

The District maintains its records and prepares its financial statement on the modified cash basis of accounting. Under the modified cash basis, revenues are recognized when received, rather than when earned and expenditures are recognized as expenses when paid, rather than when incurred. Fixed assets are recorded at cost when purchased. Annual depreciation is calculated on a straight-line basis over the estimated useful lives of the assets.

Cash and Cash Equivalents

The District considers all checking and savings accounts and deposits with a maturity of three months or less to be cash equivalents.

Cash and Deposits

Cash and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation. At December 31, 2022, all of the district's deposits were fully insured.

NOTE 2 – JOINT ACCOUNT:

The District had a project in construction with another water district. A joint bank account was open for the construction costs. At December 31, 2022, this account had a balance of \$1,015.00.

NOTE 3- INTANGIBLE ASSETS

The District acquired two easements during 2017 for \$33,607. The District is required to perform an annual evaluation of these intangible assets, The District has performed this evaluation and has determined that no impairments are necessary as the fair market values exceed the carrying costs as of December 31, 2022.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT AND EASEMENTS:

Depreciable assets are recorded at cost when purchased or constructed. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended December 31, 2022 was \$75,984. The balances for depreciable assets by major category are as follows:

	Balance December 31, 2021	Additions	Deletions	Balance December 31, 2022
Fixed assets not being depreciated:				
Land	\$ 9,600	\$ -	\$ -	\$ 9,600
Construction in Process	19,092	-	-	19,092
Total Non Depreciated Assets	28,692	-	-	28,692
Other fixed assets:				
Waterline system	1,591,903	-	-	\$ 1,591,903
Road, fence and bridge	10,815	-	-	10,815
Pump station	241,125	-	-	241,125
Pump station equipment	220,496	-	-	220,496
Jointly owned pipeline	269,362	-	-	269,362
Shop building	71,072	-	-	71,072
Office furniture and fixtures	8,043	6,041	-	14,084
Total other fixed assets	2,412,816	6,041	-	2,418,857
Less accumulated depreciation:	(1,276,770)	(75,984)	-	(1,352,754)
Totals	\$ 1,164,738	\$ (69,943)	\$ -	\$ 1,094,795

NOTE 5 – NOTES PAYABLE:

The District had no debt at December 31, 2022.

NOTE 6- ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 7 – COMMITMENTS AND CONTINGENCIES:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended December 31, 2022.

NOTE 8 – CONTINGENCIES:

As of December 31, 2022, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 9 – INCOME TAXES:

The District is a non-profit organization that is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The District's form 990, *Return of Organization Exempt from Income Tax*, for the fiscal years ending 2020, 2021 and 2022 are subject to examination by the IRS, generally three years after they were filed.

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents and certificates of deposit. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 8 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through June 13, 2023 the date which the financial statements were available to be issued.

MICHAEL W. GREEN

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

To the Board of Directors
Rural Water District No. 3
Osage County, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of Rural Water District No. 3, Osage County, Oklahoma (a nonprofit organization) (the District) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued my report thereon dated June 13, 2023. My report included an emphasis of matter paragraph related to the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the accompanying schedule of findings and responses as item (2022-01) to be significant deficiencies.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's, response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The District's, response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regards,

A handwritten signature in black ink, appearing to read 'Mike Green', is written over a horizontal line.

Michael Green, CPA
June 13, 2023

Rural Water District No. 3
Osage County, Oklahoma
Schedule of Findings and Responses
Year Ended December 31, 2022

2022-01 – Internal Controls over Financial Reporting

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently a limited number of individuals has responsibility for all functions of the financial statement reporting. These individuals have oversight responsibilities for billing and adjustments; posting of payments payment to subsidiary accounts receivable ledgers and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This condition was also reported in 2021.

Cause: The District's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the membership and other billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: Management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over assets. In response to the identified risks, consideration should be given to identifying and implementing compensating duties to act as controls that could help mitigate the risks associated with lack of segregation of duties, such as management performing review procedures for the reconciliation of accounts.

Responsible Official's Response: The District concurs with the recommendation and will strive to implement procedures and compensating duties to help mitigate the risks associated with the lack of segregation of duties.